

Neola Water and Sewer District

Neola, Utah

General Purpose Financial Statements

For the Year Ended December 31, 2005

**Together With the Compilation Report of the
Independent Public Accountant**

INTRODUCTORY SECTION

Neola Water and Sewer District

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FINANCIAL SECTION



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ACCOUNTANT'S REPORT

President and Board of Directors
Neola Water and Sewer District
Neola, Utah

I have compiled the accompanying statement of net assets of Neola Water and Sewer District as of December 31, 2005, and related statements of revenues, expense and changes in net assets, and cash flows for the year then ended in accordance with the Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements, but is supplementary information required by GASB. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Bart Morrill CPA, PC

June 23, 2006

Neola Water and Sewer District

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

As management of Neola Water and Sewer District, (which we will refer to in the discussion as "the District") we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the district for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

	<u>Amount</u>
Total Assets (resources) owned by the District at the end of the year	\$ 769,353
Total liabilities (obligations) of the District at the end of the year	<u>68,033</u>
Net assets at the end of the year, the amount that assets exceed liabilities	<u>\$ 701,320</u>
 Total revenue received by the District for the year	 \$ 103,783
Total expense incurred by the District for the year	<u>108,153</u>
Change in net assets; (net income or (loss)) for the year	<u>\$ (4,370)</u>
 Total investment in new property, plant and equipment for the year	 \$ 16,554
Depreciation recognized in the records for the year	<u>20,842</u>
Capital assets change, after depreciation; new investment exceeds depreciation	<u>\$ (4,288)</u>
 New long-term debt issued during the year	 \$ -
Repayments of long-term debt during the year	<u>5,338</u>
Long-term debt change; new debt issued less payments during the year	<u>\$ (5,338)</u>

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements which are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Government Accounting Standards Board. The District reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. A summary of the District's significant accounting policies is included in the notes to the financial statements. The financial statements are comprised of three basic statements and the notes to the financial statements as follows:

The Statement of Net Assets includes all assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and the obligations to creditors (liabilities). Net assets are the amount that assets exceed liabilities. Increases and decreases in net assets are one indicator of the District's overall financial condition.

The Statement of Revenues, Expenses, and Changes in Net Assets accounts for all of the year's revenues and expenses. This statement measures the results of operations and can be used to determine whether the District has recovered all its costs through fees and other charges, as well as establishing a basis for determining profitability and credit worthiness.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash in four categories or activities—operating, capital and related financing, non-capital financing and investing. This statement provides answers to such questions as "where did cash come from", "what was cash used for", and "what changes were there in cash balances during the year."

Notes to the financial statements provided additional information essential to a full understanding of the data provided in the financial statements.

Neola Water and Sewer District

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

For the Year Ended December 31, 2005

FINANCIAL ANALYSIS

A condensed statement of net assets is presented below:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Increase (Decrease)</u>
Nets Assets			
Current assets	\$ 120,811	\$ 120,705	\$ 106
Non-current assets	<u>648,542</u>	<u>652,830</u>	<u>(4,288)</u>
Total assets	<u>769,353</u>	<u>773,535</u>	<u>(4,182)</u>
Liabilities:			
Current liabilities	46,681	26,130	20,551
Long-term liabilities	<u>21,352</u>	<u>41,715</u>	<u>(20,363)</u>
Total liabilities	<u>68,033</u>	<u>67,845</u>	<u>188</u>
Net Assets:			
Invested in capital assets, net of related debt	620,542	624,830	(4,288)
Restricted for debt service	28,000	28,000	-
Unrestricted	<u>52,778</u>	<u>52,860</u>	<u>(82)</u>
Total net assets	<u>\$ 701,320</u>	<u>\$ 705,690</u>	<u>\$ (4,370)</u>

The table above shows the amount of and the change in the elements of net assets, as well as the change in total assets and liabilities. The largest portion of the District's net assets is its investment in capital assets (e.g., water rights, utility plant, and equipment), less any unpaid debt used to acquire those assets. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A condensed statement of the changes in net assets is presented below:

	<u>Current Year</u>	<u>Prior</u>	<u>Increase (Decrease)</u>
Operating revenues	\$ 99,664	\$ 96,880	\$ 2,784
Non-operating revenues	<u>4,119</u>	<u>2,005</u>	<u>2,114</u>
Total revenues	<u>103,783</u>	<u>98,885</u>	<u>4,898</u>
Operating expense other than depreciation	87,310	65,498	21,812
Depreciation expense	20,843	20,678	165
Interest on long-term debt	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>108,153</u>	<u>86,176</u>	<u>21,977</u>
Increase (decrease) in net assets	<u>\$ (4,370)</u>	<u>\$ 12,709</u>	<u>\$ (17,079)</u>

Non-operating revenues of the current year include consisted of interest income. However, operating revenues increased by \$2,784 over the prior year, mainly due to increased water sales, while operating expenses other than depreciation increased over the prior year by \$21,812 mainly due to repairs to the system.

Neola Water and Sewer District

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

CAPITAL ASSET ADMINISTRATION

	<u>Current Year</u>	<u>Prior Year</u>	<u>Increase (Decrease)</u>
Capital assets at end of year, Net of depreciation			
Land, water rights and other non-depreciated assets	\$ 17,795	\$ 17,795	\$ -
Water system	472,306	479,900	(7,594)
Sewer system	127,580	124,274	3,306
Office equipment	<u>2,861</u>	<u>2,861</u>	<u>-</u>
Net capital assets	<u>\$ 620,542</u>	<u>\$ 624,830</u>	<u>\$ (4,288)</u>

Additional information regarding the District's capital assets can be found in the notes to the financial statements.

DEBT ADMINISTRATION

A summary of the long-term debt is shown below:

	<u>Balance, beginning</u>	<u>Balance, ending</u>	<u>Increase (Decrease)</u>
Community Impact Board Bond 0.00% interest	\$ 32,028	\$ 26,690	\$ (5,338)
Utah State Board of Water Resources 0.00% interest	<u>30,025</u>	<u>30,025</u>	<u>-</u>
Total long-term debt	<u>\$ 62,053</u>	<u>\$ 56,715</u>	<u>\$ (5,338)</u>

The Community Impact Board bond and the Utah State Board of Water Resources are paid annually.

Neola Water and Sewer District

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

ECONOMIC FACTORS, NEXT YEAR'S BUDGET AND RATES

The District's main sources of revenues for its activities is water service revenue, connect fees and property taxes. It is anticipated that these sources will remain at about the same amounts for the next year as has been experienced in the current year.

These factors were considered in preparing the District's budget for the next year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the manager at P.O. Box 246, Neola, UT 84053.

BASIC FINANCIAL STATEMENTS

Neola Water and Sewer District
BALANCE SHEET - PROPRIETARY FUND TYPE
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 114,396	\$ 101,143
Accounts receivable (Note 4)	<u>6,309</u>	<u>6,389</u>
Total Current Assets	120,705	107,532
Fixed Assets		
Office equipment	6,993	6,993
Land and right-of-ways	17,795	17,795
Water system (at cost)	792,075	792,075
Sewer system (at cost)	244,466	244,466
Less: Accumulated depreciation	<u>(436,499)</u>	<u>(415,821)</u>
Total Fixed Assets	624,830	645,508
Restricted Assets		
Cash and cash equivalents (Note 3)	<u>28,000</u>	<u>28,000</u>
 TOTAL ASSETS	 <u>\$ 773,535</u>	 <u>\$ 781,040</u>

See accompanying notes and accountant's report.

Neola Water and Sewer District
STATEMENT OF NET ASSETS
December 31, 2005

ASSETS

Current Assets

Cash and cash equivalents (Note 3)	\$ 114,396
Accounts receivable (Note 4)	<u>6,482</u>
Total Current Assets	120,811

Fixed Assets

Office equipment	6,993
Land and right-of-ways	17,795
Water system (at cost)	800,352
Sewer system (at cost)	252,743
Less: Accumulated depreciation	<u>(457,341)</u>
Total Fixed Assets	620,542

Restricted Assets

Cash and cash equivalents (Note 3)	<u>28,000</u>
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TOTAL ASSETS	<u>\$ 769,353</u>
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See accompanying notes and accountant's report.

Neola Water and Sewer District

STATEMENT OF NET ASSETS

(continued)

December 31, 2005

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expense	\$ 8,437
Current portion of long term debt	35,363
Customer advance payments	1,181
Refundable deposits	<u>1,700</u>
Total Current Liabilities	46,681

Long Term Debt

Long term debt (Note 5)	<u>21,352</u>
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Total Liabilities	<u>68,033</u>
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Net Assets

Invested in capital assets, net of related debt	563,827
Unrestricted	109,493
Restricted	<u>28,000</u>
Total Net Assets	<u>701,320</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 769,353</u>
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See accompanying notes and accountant's report.

Neola Water and Sewer District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

Operating Revenues:

Water sales and sewer charges	\$ 86,917
Services & connection fees	10,901
Miscellaneous revenues	<u>1,846</u>
Total Operating Revenues	99,664

Operating Expenses:

Water purchases	40,396
Salaries	7,200
Operating supplies	14,921
Repairs and maintenance	9,939
Utilities	2,906
Taxes & insurance	473
Accounting & legal expense	3,598
Board fees and expense	3,453
Office expense	4,425
Depreciation expense	<u>20,842</u>
Total Operating Expenses	<u>108,153</u>

Net Income (Loss) from Operations	(8,489)
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Other Income:

Interest income	<u>4,119</u>
Total Other Income	<u>4,119</u>

Change in Net Assets	(4,370)
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Beginning Net Assets	<u>206,274</u>
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Ending Net Assets	<u>\$ 201,904</u>
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See accompanying notes and accountant's report.

Neola Water and Sewer District
STATEMENT OF CASH FLOWS NET ASSETS
For the Year Ended December 31, 2005

CASH FLOWS FROM
OPERATING ACTIVITIES

Operating income	\$ (8,489)
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	20,842
Changes in assets and liabilities:	
Accounts receivable	(173)
Accounts payable	5,639
Customer advance payments	(113)
Net Cash Flows Provided by Operating Activities	<u>17,706</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Principal paid on long-term debt	(5,338)
Equipment and Land Purchased	<u>(16,554)</u>
Net Cash Flows Used for Capital and Related Financing Activities	<u>(20,338)</u>

CASH FLOWS FROM INVESTING
ACTIVITIES

Interest income	<u>4,119</u>
Net Cash Flows Provided by Investing Activities	<u>4,119</u>
Net Increase/ (Decrease) in Cash	(67)
Cash and cash equivalents - Beginning of Year	<u>142,396</u>
Cash and cash equivalents - End of Year	<u>\$ 142,329</u>

See accompanying notes and accountant's report.

Neola Water and Sewer District
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

CASH AND CASH EQUIVALENTS
RECORDED IN THE
ACCOMPANYING BALANCE
SHEET

Unrestricted	\$ 114,329
Restricted	<u>28,000</u>
	<u>\$ 142,329</u>

See accompanying notes and accountant's report.

Neola Water and Sewer District

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 Summary of Significant Accounting Policies

The accounting policies of Neola Water and Sewer District conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

(A) Basis of Presentation

The Neola Water and Sewer District (the District) is a governmental unit which is accounted for as an enterprise fund. The District follows generally accepted accounting principles applicable to a governmental entity, including pronouncements of the Governmental Accounting Standards Board (GASB). The records of the district are maintained on the accrual basis of accounting, with a measurement focus on net income determination and capital maintenance. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The District has elected to follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB), no matter when issued, except those that conflict with a GASB pronouncement, in accordance with GASB Statement No. 20.

The District was organized by Duchesne County as a Special Water and Sewer District. The District is a separate legal entity, with a five-member elected board. Board members serve for a specified term and cannot be removed without cause. As Duchesne County is unable to impose its will and is not financially accountable for the District, the District is not reported as a component unit of Duchesne County.

(B) Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Neola Water and Sewer District
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005

NOTE 1 Summary of Significant Accounting Policies (continued)

(C) Fixed Assets and Long Term Liabilities

Fixed assets are recorded at cost, or in the case of donated assets, at fair value. Depreciation of all exhaustible fixed assets is charged as an expense on the District's operating statements. Accumulated depreciation is reported on the District's balance sheet. Depreciation has been provided over the estimated useful lives of assets using the straight-line method. The estimated useful lives of all depreciable fixed assets are as follows:

	<u>Years</u>
Office equipment	5-10
Water & sewer system	40-50

(D) Cash and Cash Equivalents

The District considers investments in highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(E) Compensated Absences

There are no accrued compensated absences as of December 31, 2005.

(F) Budget and Budgetary Accounting

The District follows these procedures in establishing its budget:

1. On or before the first regularly scheduled meeting of the Board of Trustees in November of each year, the District Secretary submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenses and the means of financing them.
2. The Board of Trustees reviews the tentatively adopts the budget submitted.
3. Public hearings are conducted to obtain taxpayer and rate payer comments. The board of Trustees makes any necessary and proper adjustments to the budget.
4. Prior to the beginning of the fiscal year, the budget is enacted by adoption of a resolution by the Board of Trustees.

Neola Water and Sewer District
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005

NOTE 1 Summary of Significant Accounting Policies (continued)

5. The Budget may be amended any time during the year. A public hearing must be held before amending the budget. The amended budget is enacted by a resolution by the Board of Trustees.
6. Formal budgetary integration is employed as a management control device during the year.
7. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(G) Reporting Entity

In applying the principles set forth in the Governmental Accounting Standards Board Statement No. 14, it was determined that there are no entities which should be reported as component units of Neola Water and Sewer District.

NOTE 2 Reserves and Sinking Funds

To satisfy the requirements of the two bond agreements the District entered into with the State of Utah Water Resources Board in 1985 and again in 1986, the District was to establish sinking fund accounts which would accumulate one annual payment, which is \$19,988. As of December 31, 2005, these accounts have been established with a sinking fund set up with the Utah Public Treasurer's Investment Fund in the amount of \$ 28,000.

Neola Water and Sewer District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2005

NOTE 3 Cash, Cash Equivalents and Investments

Cash and cash equivalents consisted of the following at December 31, 2005:

	<u>2005</u>
Unrestricted:	
Cash – net of outstanding checks	\$ 15,866
Public Treasurers Investment Fund	<u>98,463</u>
114,329	114,396
Restricted:	
Public Treasurers Investment Fund	<u>28,000</u>
Total:	<u>\$ 142,329</u>

Deposits - The State law requires that the District follow the requirements of the Utah Money Management Act in handling its depository and temporary investment transactions. The Act requires the deposit of District funds in a “qualified” depository, defined as any financial institution that has been certified by the Utah State Commissioner of Financial Institutions.

The District’s bank deposits at December 31, 2005 consisted of the following:

Carrying amount	<u>\$ 15,911</u>
Bank balance:	
Covered by FDIC	<u>\$ 15,911</u>

The entire balance was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute.

Investments – The following is a summary of the Districts investments at December 31, 2005.

	<u>Carrying Amount</u>	<u>Fair Value</u>	Unrealized Gain <u>(Loss)</u>
Public Treasurer’s Investment Fund (PTIF)	<u>\$ 126,463</u>	<u>\$ 126,463</u>	<u>\$ -0-</u>

Neola Water and Sewer District
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005

NOTE 3 Cash, Cash Equivalents and Investments (continued)

The Utah Public Treasurer's Investment Fund (PTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money marker securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. PTIF is not SEC registered.

Investments at December 31, 2005 were classified as follows:

Current:

PTIF	\$ 98,463
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Restricted:

Savings - Sinking Fund

PTIF	<u>28,000</u>
Total	<u>\$ 126,463</u>

NOTE 4 Accounts Receivable

Utility customer accounts were as follows at December 31, 2005:

Utility customers receivable	\$ 8,818
Less: Allowance for doubtful accounts	<u>(2,336)</u>
Utility customers	<u>\$ 6,482</u>
Customer advance payments	<u>\$ 1,181</u>

Neola Water and Sewer District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2005

NOTE 5 Long Term Debt

Long term debt consists of notes payable to:

Utah State Board of Water Resources
 yearly payment of \$15,000, \$290,000
 borrowed at 0% interest for 25 years
 matures January 1, 2010

Current Value	\$ 30,025
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Permanent Community Impact Fund
 yearly payments of \$5,338, \$133,450
 borrowed at 0% interest for 25 years
 matures January 1, 2011

Current Value	<u>26,690</u>
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Total Debt	56,715
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Less: Current Portion	<u>(35,363)</u>
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Total Long Term Debt	<u>\$ 21,352</u>
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The total payments and maturing principal for the next five years are as follows:

2006	\$ 35,363
2007	5,338
2008	5,338
2009	5,338
2010	5,338
thereafter	<u>-</u>
	<u>\$ 56,715</u>

Neola Water and Sewer District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2005

NOTE 6 Capital Assets

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Non-depreciated assets:				
Water Rights	17,795	-	-	17,795
Capital assets, being depreciated				
Office equipment	6,993	-	-	6,993
Water system	792,075	8,277	-	800,352
Sewer system	<u>244,466</u>	<u>8,277</u>	<u>-</u>	<u>252,743</u>
Total capital assets, - being depreciated	1,043,534	16,554	-	1,060,088
Less accumulated depreciation:				
Office equipment	4,132	-	-	4,132
Water system	312,175	15,871	-	328,046
Sewer system	<u>120,192</u>	<u>4,971</u>	<u>-</u>	<u>125,163</u>
Total accumulated depreciation	436,499	20,842	-	457,341
Depreciated capital assets, net	<u>607,035</u>	<u>(4,288)</u>	<u>-</u>	<u>602,747</u>
Total capital assets, net	<u>624,830</u>	<u>(4,288)</u>	<u>-</u>	<u>620,542</u>

Depreciation expense was charged to operations for the year in the amount of \$20,842.

NOTE 7 Insurance

The District does not maintain insurance coverage on the fixed assets.

NOTE 8 Pension Plan

The District does not offer or maintain a pension plan.